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Basic data on the public sector

Report of the Secretariat

Summary

In following up the recommendations of the fifteenth session of the former Ad Hoc Group of Experts on the United Nations Programme on Public Administration and Finance, the Division for Public Economics and Public Administration of the Secretariat developed a set of public sector indicators, which were made available in both electronic form (at www.unpan.org) and in printed form (*World Public Sector Report: Globalization and the State*). That effort stands out as the only readily accessible source of indicators that present the size and major functions of the public sector in the world. In view of the increased interest in government activities and government accountability, as well as transparency, there is a need to improve and expand the current set of indicators. Therefore, it is proposed to expand the list of indicators to include an output indicator of overall efficiency and accountability of public sector financial management. That indicator is considered to be paramount in its importance and therefore is included in tier 1 of the proposed indicators. If additional indicators are desired, the Committee of Experts is invited to select from two additional indicators proposed in tier 2: human and political rights, and the judicial system. If the Committee desires to select yet additional indicators, three indicators within tier 3 are suggested: decentralization of public sector activities and grass-roots involvement, legislating privacy in e-commerce, and a financial sector safety net. The present report recommends adopting such an expanded set of indicators as a basis for the evolution of current basic data on the public sector into the global public sector monitor.

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I. Introduction and summary discussion of the first session

1. The present report represents the continuation of a discussion on collecting and making available internationally comparable data on the public sector, an effort undertaken in collaboration between the Division for Public Economics and Public Administration of the Secretariat and the former Group of Experts of the United Nations Programme on Public Administration and Finance, which got under way during the fourteenth session of the former Group of Experts, in 1998. Following the recommendations made at that session, the Division elaborated and presented to the former Group of Experts at its fifteenth session a framework for the collection of such data (see ST/SG/AC.6/2000/L.2). That framework described the functions of the state as regulator, tax collector, producer, consumer and provider of cash transfers and subsidies, as well as employer.

2. Subsequently, as a result of discussion during the fifteenth session of the former Group of Experts and further elaboration of the framework of indicators for measuring the public sector, the set of indicators published in electronic form at www.unpan.org included the following five measures:

- Government and public employment as a percentage of population
- Government consumption as a percentage of gross domestic product (GDP)
- Central government expenditure as a percentage of GDP
- Central government expenditures by type and by function, as a percentage of all central government expenditure
- Central government tax revenue as a percentage of GDP.

The concept and indicators were presented in part two of the *World Public Sector Report: Globalization and the State*.

3. Two thorny issues that were raised from the very beginning of the discussion about the scope of indicators for measuring the public sector remain unresolved. Although within those five categories some data can be collected and presented in an internationally comparable way, the lack of data in other cases makes the task difficult. Also, the lack of readily available data at the subnational level allows for the presentation of a partial picture only.

4. Subsequently, at the first session of the Committee of Experts on Public Administration, a set of additional indicators was proposed in five areas: maintenance of the public sphere; knowledge acquisition; a web-based platform for work and life; entrepreneurial development; and links between the local and the global levels. The Committee's discussion at that session was enlightening to the Secretariat. The Committee's broad comments were that the indicators should be tied to the public sector only. The focus should be on services, support to the legislative process, accountability and audit functions of government. In addition, the Committee felt that the Secretariat should focus on output (outcome) indicators, rather than just input indicators. Moreover, where feasible, the Secretariat should involve national statistical agencies and other national players in its utilization of existing data. Regarding the fifth of the original five indicators proposed, namely, central government tax revenue as a percentage of GDP, the Committee felt that money was important, but as important was, inter alia, the volume of things that the government controls, the number of regulations, licences and approvals.

5. Regarding the seven indicators suggested supplementary to the original five, namely: total public revenue as a percentage of GDP; public debt (total and per capita); ratio of debt service to recurring revenues; international ranking of public debt; domestic ranking of local debt (BIS ratio); tax expenditures as a percentage of total tax revenue; and percentage of total central revenues spent at the local level, the Committee found the last of the foregoing indicators to be particularly interesting.

6. Under the maintenance of the public sphere rubric, three indicators were proposed: ownership (state, for profit, not for profit) of newspapers, radio and television stations; description of ways in which the government budget is disclosed to the public at large; and status of ratification of human rights conventions. Concerning the last of those indicators, the Committee pointed out that application rather than ratification was relevant.

7. Regarding the knowledge acquisition area, four indicators were proposed, namely: public expenditures on research and development as a percentage of military budget; number of internationally registered patents, school enrolment ratio at all three levels of education (by gender); and foreign direct investment as a percentage of total investments. As to the third indicator, it was proposed that the net enrolment rate was more appropriate; regarding the fourth indicator, it was pointed out that the percentage of foreign direct investment in local business is a sign of business confidence in general.

8. As to the web-based platform for work and life, five indicators were proposed, namely: infrastructure for wireless, broadband connectivity; number of cell phones per 100 population; number of Internet hosts per 100 population; cost of Internet connection; and e-government applications (list and description of existing applications, with links to them and/or e-government index). Regarding the third indicator, the Committee felt that it was more appropriate to consider the users of the Internet, rather than hosts, or the number of cybercafés.

9. With regard to the entrepreneurial development area, two indicators were proposed, namely: number of steps needed for business incorporation; and number of new businesses as a percentage of existing ones. The Committee made no comments with regard to that area.

10. Finally, regarding the links between the local and the global area, two indicators were proposed, namely: foreign trade as a percentage of GDP; and net labour migration as a percentage of population. The Committee made no comments with regard to that area, as well.

11. The Committee also pointed out that the issue of governance is an important one in the context of indicators. It singled out the following issues:

- Transparency, accountability and participation
- Free press, access of the public to information from the government
- Judicial independence (audit, anti-corruption body)
- How the public sector is controlled and supervised (e.g., court system, audit system and their independence)
- Role of parliamentarians

- Social audit
- How the public participates in the functioning of the public sector
- How representative the public sector is of minorities (marginalized groups, inequalities)
- Satisfaction of citizens. Important factors are: access, equity, quality of service and cost.

12. The Committee also felt that the issue of institutional capacity was an important one. It would thus be interesting to have data on:

- Number of codes of ethics
- Number of investigating committees in parliament
- Human resources development for public sector performance: e.g., average level of education; and percentage of the public sector budget devoted to training public servants.

II. Maximizing value for citizens

13. Societies are charac'erized by two distinct sectors — the public and the private. The public sector is different from the private sector across three main issues: sovereign versus free contract, political versus economic, and monopoly versus competition. On the one hand, government is sovereign, with governmental sovereignty being derived from popular sovereignty, which the citizens give to government, within constitutional limits, in the interest of security and the public good. On the other hand, economic activity in the private sector is regulated by the free contract. However, governmental or public sector decisions are also political decisions. Governmental decisions that are politically popular but bad from an economic standpoint can ensure the re-election of a government official. Nonetheless, decisions that are economically sound but politically unpopular can ensure the end of the political career of that government official. Private sector decisions, however, are decisions that are sound from an economic standpoint regardless of their political impact. Finally, it is important to bear in mind that the public sector is monopolistic, providing essential services, while the private sector is competitive, with alternative sources of supply for the goods and services it produces. Government, in fact, is a particularly effective form of monopoly since: (a) government cannot go out of business. That notion is a recognition of the fact that every citizen, especially the less affluent ones, is a customer for the services provided by the government, since they cannot afford to get those services elsewhere; (b) government controls revenue. That idea implies that if more money is needed to provide a service, government is empowered to raise taxes to that end; and (c) government can spend more than it takes in. Although many subnational governments are legally required to enact balanced budgets, many governmental entities, including federal governments, are not obligated to do so.

14. While, in the private sector, the efficiency of a company is regulated by the amount of competition its products face, which provides an incentive for companies to keep their costs down, governments, in general, lack a thorough understanding of the costs associated with the provision of their operations and tend to focus on monitoring only their expenditures. However, governments can reduce their costs by

adopting the process of activity-based costing (ABC), which is used by the private sector. Through that process, for every identifiable activity of government, the cost of inputs that go into producing that activity is determined. The process accounts for depreciation and other fixed costs.

15. However, simply saving the taxpayers' money is not enough. Government must also respond to citizens' preferences in the effort to maximize value for every tax unit of currency it spends. Because government does not compete for the tax money it spends, it must invent processes to determine preferences which produce desired outputs or outcomes. Such processes may include public opinion surveys, focus groups and, in the case of subnational governments, neighbourhood forums. Maximizing value for citizens entails producing the same outcome at a lower cost, or producing more of a desired outcome at the same cost. Government needs to put citizens first and turn them into customers of government.

16. Reducing the cost of government by downsizing, outsourcing and improving government efficiency is but one of the challenges faced by governments worldwide in their effort to maximize value for citizens. What is equally important, in the process of government reinvention which societies are currently undergoing in building the governance institutions for the twenty-first century, is to implement policies and initiatives to promote transparency and accountability in public administration and policies which foster an environment of trust in the private sector. Public accounting in every country is rather complex and generally accepted accounting methods and procedures can be useful only if management is prepared to produce clear accounts frequently as an ongoing practice. Transparency is thus a key ingredient to building up confidence in government, as well as in the private sector.

17. Monitoring the national public sector in the age of globalization has become a complex task. Globalization has increased the demand for institutional reforms of the private sector, which in turn depends for its competitiveness on the quality and efficiency of the delivery of public services. Globalization has increased the demand for institutions that can help address the issues of promotion of human rights, political and judicial rights, private sector development rights, and income inequality redress and social safety nets. Institutions (rules that shape the behaviour of organizations and individuals in a society) matter for development because they are crucial in determining the viability, as well as efficiency, of both organizations and markets. Institutions determine the dynamics of innovation and the levels of investment in physical and human capital, since it is on the basis of the quality of institutions that economic agents perceive risks and accordingly undertake risks and conduct investments. Finally, institutions are crucial with respect to the production and quality of public goods, such as clean air. Good institutions provide rules that are clear and universal in their application, are widely known, predictable, and properly enforced.

18. Looking at the galaxy of issues where the government can indeed make a big difference in the lives of the public and bearing in mind the advice of the Committee of Experts to be realistic in terms of the number of new indicators to be incorporated into the global public sector monitor, an incremental approach of additional output (outcome) indicators is presented below and designated as tiers 1, 2 and 3.

III. Expanding the United Nations database on the public sector

19. In line with such an approach, the most important indicator, which measures the qualitative aspects of governmental performance, that is put forth for the consideration of the Committee of Experts as a tier 1 supplement to the original five input indicators, is the overall efficiency and accountability of the public sector.

A. Overall efficiency and accountability of public sector financial management

20. Improved efficiency, accountability and transparency in the delivery of public services have become well-known mantras that require little elaboration. The auditing and oversight of government-administered budgets and funds are crucial elements in the effort towards transparency. The existence or lack of provisions for the regular and independent financial audits of governmental and parastatal bodies is therefore a useful overall indicator of evaluating governmental performance. Such an indicator becomes all the more relevant in the context of the so-called New Public Management Model, pioneered by New Zealand, which relies on managerial discretion and accountability, performance contracts and competition for service delivery and is being increasingly used in part or in whole by more developed countries.

21. Within tier 2, the following two indicators are suggested: (a) functioning of the electoral and political system; and (b) functioning of the judicial system.

B. Functioning of the electoral and parliamentary system

22. The demands for the increased effectiveness of parliaments to enable them to perform their legislative and oversight functions, as well as the need for improved accountability and credibility of parliament vis-à-vis its various constituents, are behind the need to reform and improve the institutional capacity of parliamentary structures and processes. The following two indicators could provide useful yardsticks of governmental performance in that area: (a) mechanisms for accountability, such as whether a public accounts committee is in place, to ensure legislative oversight; and (b) the average time taken for the passage of legislation in parliament during the current year.

23. Again, in that area, the increasing demands for improved conformity of the national, legal, institutional and electoral framework with international standards, together with the increasing participation in electoral processes, are behind the need to reform and improve the electoral legislation and institutional capacity of electoral commissions, systems and processes. The following three indicators could be useful in that area: (a) whether an independent electoral management body exists, with the capacity to conduct free and fair elections; (b) whether there is a voter registration system in place that is accessible to all voters; and (c) voter turnout by gender as a percentage of registered voters.

C. Functioning of the judicial system

24. Market development opens social space. The judiciary of a nation performs a set of functions essential to the governmental process: the enforcement of criminal law, the resolution of conflicts between private citizens and those between the citizen and the state and the determination of the law itself. A political system without an effective judicial system is dysfunctional. It is the judicial system which preserves social order, fosters contractual relations and redresses complaints. As economies develop, an increasing number of disputes are related to business deals, property rights, as well as intellectual property rights.

25. Many judicial systems, especially in developing countries, suffer from a lack of resources and procedures for resolving disputes have been cumbersome. In many countries, rising rates of crime, which have negative implications for both political and economic development, have raised concerns about the systems' ineffectual response. Markets also require a judiciary that can quickly and inexpensively resolve contract and property rights disputes. Systematic efforts by many governments have been made towards modernizing their judicial systems. External development agencies have also provided funds and technical assistance to support those systems; but improvements have lagged behind the growing demands placed on an efficient judicial system. Many litigants continue to wait for years for their cases to be heard.

26. It is proposed therefore that judicial output, measured as the ratio of the number of cases pending to the number of cases adjudicated, should be adopted as one of the output indicators of the global public sector monitor. Another indicator of the quality of the judge's decision, which measures the rate of error of lower courts, is the percentage of cases reversed on appeal. Yet another indicator, which measures the integrity of judicial performance, is the number of judges subject to disciplinary action.

27. In tier 3, three indicators are proposed: (a) decentralization of public sector activities and grass-roots involvement; (b) legislating privacy in e-commerce; and (c) a financial sector safety net.

D. Decentralization of public sector activities and grass-roots involvement

28. The worldwide trend towards decentralization of activities has intensified over recent years. As financial and human resources are increasingly mobilized and allocated in support of decentralization and local governance in rural and urban areas, local authorities and communities in rural areas are becoming more directly involved in the planning and management of development activities, including the provision of public services. Moreover, there is an increasing participation of civil society organizations in the formulation and implementation of economic and social programmes at the subnational level. It is also important for governments to increase the level of autonomy given to managers in the lower levels of administrative and operational units in the areas of health, education and social assistance. As the managers' autonomy is gradually increased, they will be able to make decisions regarding the allocation of financial resources.

29. Decentralization and the involvement of local communities in monitoring public services management makes public expenditures more transparent and allows for measuring the management efficiency of each service unit. There is therefore a need for planning and budgetary processes at the subnational level to be reformed so as to incorporate community level perspectives, participation and needs more effectively. The following two indicators could be considered in that area: (a) proportion of total public revenues allocated and managed at the subnational levels; and (b) existence of institutionalized mechanisms for regular consultation between local governments and civil society organizations on economic and social policies and programmes.

E. Legislating privacy in e-commerce[1]

30. The global information era is also having a profound impact on governance. Governments must deal with a complex range of issues, including regulation/deregulation, licensing, providing incentives, thoughtful information technology planning and the management of information assets. However, there will also be a need for local, national and international legislation to provide a regulatory climate in which information-based economies can flourish.

31. In keeping with the motto of putting citizens first, there is an increasing requirement being placed on governments to obtain the individual's consent for the collection, use and disclosure of personal data. Internet-based technologies are driving the need for new measures related to privacy protection involving the use of information for other purposes or the delivery of information to third parties. The ease with which information technologies can aggregate and transmit data has heightened public concerns and, as a result, elevated privacy protection to the top of the public policy agenda. E-businesses can flourish only if there is transparency and predictability between the contracting parties.

32. A national framework for privacy protection also constitutes an important component of competition policy. Establishing a common set of rules via a national framework reduces the costs to business, particularly to small and medium-sized enterprises, and contributes to providing predictability and a level playing field necessary for all participants in the electronic marketplace. It also ensures that the misuse of personal information does not result in a competitive advantage.

33. It is therefore proposed that an indicator of national legislation protecting privacy in e-commerce should be incorporated into the public sector monitor. Such an indicator would assess not only whether national legislation is in place, but also whether the legislation embodies certain key principles, such as: (a) consent (it should be sought at the time of the collection, or at least before use); (b) redress and oversight provisions regarding the mechanisms of enforcement; such provisions would require organizations to designate an official to deal with privacy issues and, if an individual is not adequately satisfied, to ensure there are provisions for resorting to a government designated official who can conduct an investigation; (c) provisions regarding the identification of purposes for which personal information is collected by an organization; (d) provisions regarding an individual's access to information about the individual, as well as the ability of that individual to challenge and amend the information in question; and (e) whether the government has an active programme on educating the public about privacy protection.

F. Financial sector safety net

34. Institutions play an essential role with regard to the performance of the financial sector. That is especially so because of the relevance to the sector of information issues, agency problems, transaction costs and property rights. A well-designed safety net in the financial sector improves social welfare. In the absence of ex-ante provisions for financial sector safety nets, ex-post improvised nets frequently arise, implying massive risk-shifting to the government. Such risk-shifting tends to have substantial social costs through severe incentive distortions in financial markets in the form of runaway moral hazard. Financial safety nets also promote sustainable financial deepening by supporting market-originated discipline. Because a key market failure is the monitoring of banks by depositors, a governmental supervisory agency must monitor banks as the representative of all depositors. Governments in many emerging markets over the past two decades have been forced to bail out banking systems at high public cost. Many governments are at present considering setting up deposit insurance schemes in an effort to increase stability in the banking sector by adding to the implicit sovereign guarantees. Over 70 countries have formal deposit insurance systems, with many of them being established over the last decade. A number of those systems were put into place following a crisis.

35. Deposit insurance has a dual role: protecting depositors from losses in the event of a bank failure and avoiding the externalities of panic deposit withdrawals. An explicit deposit insurance system offers predictability and provides an orderly process for dealing with bank failures. With implicit guarantees, the uncertainty of how depositors will be treated may result in confusion and instability during a crisis. It can also increase moral hazard by leading the government to issue blanket guarantees covering everything and everyone.

36. Recent thinking has emphasized that well-designed, limited, and explicit deposit insurance systems can significantly improve market discipline by facilitating early closure without adding moral hazard, provided that capital and monitoring provisions are adequate. Empirical research has shown that coverage should be relatively low. The World Bank has found that countries with high deposit insurance limits tend to have much more fragile banking systems than countries with low limits. Deposit insurance should be provided for small savers who are not likely to monitor a bank systematically owing to the free-rider problem. The protection of small investors is therefore a politically non-controversial issue. Other depositors should be prepared to live by the principle of caveat emptor. Prudent behaviour by uninsured creditors will result in market discipline, as those depositors will have a greater incentive to monitor their bank and to discipline it by withdrawing their deposits or requiring a premium in interest rates. Bankers are also more likely to behave prudently if they perceive that the probability of being bailed out is not an option.

37. Compulsory membership is essential to deposit insurance systems, as weak banks are likely to participate disproportionately in voluntary systems, resulting in "adverse selection". Funding deposit insurance by way of premiums assessed on the banking sector, which vary according to the riskiness of individual banks, rewards prudent banks. It is also important that regulatory and supervisory systems be in place before countries set up deposit insurance systems. Since bank supervisors are not likely to close an insolvent bank for the simple reason that their role as

perceived by the public is one of preventing banks from going under, thereby putting them in the unenviable position of admitting failure, it is important to organize deposit insurance into a publicly administered agency.

38. The rationale for proposing that an indicator of deposit insurance systems be in place can be easily justified by the public's perception that banks are different from other enterprises. Depositors turn to government when banks fail because the government has licensed banks to accept funds from the public. It is therefore proposed that an indicator on deposit insurance systems should be incorporated into the public service monitor. Such an indicator would assess whether deposit insurance systems are in place and whether deposit insurance is organized into a publicly administered agency, with independence from political interference and powers for early intervention and effective bank-failure resolution.

IV. Recommendations

39. **Based on the foregoing analysis, it is recommended that the global public sector monitor should at a minimum continue to include the following indicators:**

- **Government and public employment as a percentage of population (given the availability of data)**
- **Government consumption as a percentage of GDP**
- **Central government expenditure as a percentage of GDP**
- **Central government expenditures by type and by function, as a percentage of all central government expenditure**
- **Central government tax revenue as a percentage of GDP**

40. **It is also recommended that the Committee approve the addition of one more indicator:**

- **Provisions for the regular and independent financial audits of governmental and parastatal bodies.**

41. **Furthermore, the Committee of Experts is invited to consider constituting during its session a working group to discuss the issue of indicators in more detail, and on the basis of that discussion to select from tiers 2 and 3 any indicators that it deems to be appropriate for inclusion in the public sector monitor.**

Notes

[1] The Division for Public Administration and Development Management in the Department of Economic and Social Affairs of the Secretariat will publish this year the second edition of the global *E-government Survey*, which will calculate the e-government index for the Member States. That publication is planned as an annual effort. The data used for the calculation of the e-government index relate to the broader national information and communication technology environment and as such are relevant to measuring the output side of public sector activities. A verbatim repetition of those indicators in the description of the basic data on the public sector would be redundant. Instead, a summary of the indicators as well as a summary of the conclusions drawn from the analysis of the indicators will be provided in the presentation of basic data on the public sector.